

DURHAM



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November 3, 2008

Ms. Gloria Nance-Sims, Director
Division of Community Assistance
4313 Mail Service Center
Raleigh, NC 27699-4313

Re: Neighborhood Stabilization Program Letter of Intent

Dear Ms. Nance-Sims:

The City of Durham submits this letter of intent to apply for \$5 million in funding under the Neighborhood Stabilization Program. Based on an assessment of our needs, we intend to request funding for acquisition, rehabilitation, secondary financing, demolition, relocation and program administration. Required elements of the letter of intent are outlined below:

Areas of Greatest Need: The need for stabilization funding in Durham is driven by three factors – foreclosures, sub-prime loans and vacant and abandoned properties. “Empty Houses and Broken Dreams” (Exhibit 1) is a February 2008 report prepared by the Community Reinvestment Corporation of North Carolina documenting the impact of foreclosures on Durham’s neighborhoods. As the report and other supporting documentation indicate, the greatest number of foreclosures is in east and north Durham where newer subdivisions have been developed. However, the greatest concentrations of foreclosures tend to be in older areas of the City, particularly in central neighborhoods such as Southside and Cleveland-Holloway.

Sub-prime Loans: Foreclosure patterns in Durham closely mirror those of sub-prime lending. In Durham, sub-prime loans peaked in 2006 and foreclosure activity has followed as those loans have begun to adjust or reset. Exhibits 2 and 3 depict the geographic concentration of such loans for 2006 and 2007 respectively. For 2006 in particular, a high incidence of sub-prime lending in east Durham is indicated. Exhibits 4 and 5 present the same information in tabular form. In 2006, a total of 3,004 sub-prime loans were made in Durham County. According to Exhibit 6, “A Summary of High Cost Lending Raleigh-Cary and Durham Metropolitan Statistical Areas”, sub-prime or “high cost” loans accounted for 20.5% of all first mortgage loans in Durham County as of July 2007.

Number and Location of Foreclosed Properties: As of October 29, 2008, there were a total of 275 foreclosed properties in the Durham Multiple Listing Service that are active or recent. This figure closely corresponds with the listing of bank owned real estate (REO's) as reported by Realtytrac (Exhibit 7). As indicated by Exhibit 7, foreclosure amounts range from less than \$5,000 to \$3 million, with most properties being in the \$90,000 to \$200,000 range.

Vacant and Abandoned Properties: The greatest concentrations of vacant and uninhabitable properties are located in the three central city neighborhoods of Northeast Central Durham, St. Theresa/Southside and West End/Lyon Park. Within these areas, 962 properties have been inventoried (See Exhibits 8 and 9). While many of these properties may not meet the NSP definition of abandoned, the City of Durham believes that a significant number of them do. Only a relatively small percentage of such properties are feasible for rehabilitation because of the extent of structural deterioration and other factors. Both Exhibits 8 and 9 were prepared by the Department of Neighborhood Improvement Services, which is responsible for the enforcement of the City's minimum housing and related codes.

System for Determining Values: As indicated above, most of the REO's are in the \$90,000 to \$200,000 range. To establish the market value and therefore, the minimum 15% discount that is required, the City will ensure that each property to be acquired is appraised by a licensed real estate appraiser with Durham market experience. The appraisals will be reviewed by the City's Real Estate Division which has a professional staff familiar with property acquisition or by a separate appraiser hired by the City. Currently, the City is acquiring 51 privately-owned properties in the Rolling Hills redevelopment area.

Conditions of Foreclosed, Vacant and Abandoned Properties: Conditions of foreclosed properties currently listed in MLS range from older and severely deteriorated homes requiring demolition to newer homes which appear to be in move-in condition. Exhibit 10 provides representative samples from the MLS of properties requiring demolition, those requiring at least some repair and those ready for move-in. Vacant and abandoned properties inventoried by the Department of Neighborhood Improvement Services include some which are feasible for rehabilitation, but most of those properties are deteriorated to such a degree that demolition is required. Generally, properties needing repairs costing more than 50% of tax value are those which are not deemed suitable for rehabilitation. Properties selected for treatment under the Neighborhood Stabilization Program will be inspected by housing rehabilitation specialists from the Department of Community Development or by construction managers employed by one of the City's non-profits partners who are experienced in housing rehabilitation through the City's regular CDBG and HOME program.

Relocation Policy: The City of Durham will comply with the Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970, as amended.

Capacity: Being a CDBG, HOME and ESG entitlement community, the City of Durham has the capacity and staff in place to administer the Neighborhood Stabilization Program (See Exhibit 11). Existing staff will be supplemented by contract employees and/or community development consultants as needed. Additionally, the City is fortunate to have very strong and capable non-profit partners with significant experience in housing development and rehabilitation who will play major roles in implementing the Program. Partners include, but are

not limited to Self Help Credit Union and its affiliates, the Community Reinvestment Corporation of North Carolina, Durham Community Land Trustees, Durham County Habitat for Humanity and Community Alternatives for Supportive Abodes (CASA).

Property Identification, Assessment and Appraisal: Existing REO's have already been identified and additional REO's will be monitored through Realtytrac and by direct communication with major financial institutions having a significant portfolio of foreclosed properties in Durham. To determine which properties to assess for inclusion in the NSP program, the City and its partners will conduct a more detailed geographic analysis of those neighborhoods most at risk that could potentially be stabilized. City staff or one or more of its partners will then be tasked with generating a short list and an initial assessment of potential properties within defined geographic areas. The property trustee or listing agent will be contacted to gauge interest in selling a given property under the parameters of the Program. If adequate interest exists, an appraisal will be ordered. That appraisal will be reviewed by the Real Estate Division of the City's Department of General Services or by a review appraiser.

Security and Maintenance of Acquired Properties: The City anticipates that all property acquisition will be through its non-profit partners, all of whom have experience and capacity in property management. Properties deemed not feasible for rehabilitation will be demolished as quickly as possible. All others will be secured as needed (i.e., boarded). Non-profit partners will be reimbursed with NSP funds for temporary property management costs per 24 CFR 570.201(b).

Secondary Financing Mechanisms Currently in Place: The City of Durham has administered homeownership assistance programs since 1992. The primary program currently in place offers a 2% second mortgage loan of up to \$20,000 with a term of 30 years, which is coupled with a conventional first mortgage loan. Most lenders in the Durham market have originated first mortgage loans coupled with the City's loan products and annual workshops with lenders are conducted. It is anticipated that programmatic options will be expanded under the Neighborhood Stabilization Program, including provisions for lease-purchase.

Homeownership Counseling: Participants in the City's homeownership program must complete an approved homebuyer education program. Providers of homebuyer education training include Durham Affordable Housing Coalition, Durham Regional Community Development Group, Empowerment, Inc. and Triangle Family Services. Through the Durham Housing Authority, the North Carolina Cooperative Extension Service also conducts homebuyer education programs. The City contracts with Durham Affordable Housing Coalition to provide pre-purchase homeownership counseling and delinquency/default counseling to existing homeowners.

Rehabilitation Standards and Green Features: The City of Durham's Department of Community Development administers housing repair and housing rehabilitation programs utilizing CDBG and HOME entitlement funds. The rehab standards are based on the City's minimum housing code and exceed Section 8 standards. Green elements currently in place or proposed include HVAC SEER ratings of 13 or better, vapor barriers, attic and wall insulation, energy efficient window and door replacement, the use of blower door testing and the use of low VOC paints.

18 Month Obligation Period: To insure that funds are obligated within 18 months, the City of Durham will partner with various non-profit organizations who will conduct simultaneous activities within differing geographic areas. Additionally, a strategically located multi-family property has been identified which is at risk of foreclosure. Finally, outreach to lenders having the largest portfolio of REO's has already begun.

OIG High-Risk Identification: The City of Durham believes that given the purchase discount requirement, the NSP aspect creating the most risk for fraud or abuse is the appraisal process. For that reason, the City will ensure that appraisers are properly licensed by the state of North Carolina and that they are knowledgeable of the Durham market. Additionally, all appraisals will be reviewed either by real estate professionals within the Real Estate Division of the Department of General Services or by other licensed and knowledgeable appraisers. To avoid mismanagement of funds, all payments to non-profit partners will be on a reimbursement basis. Funds for acquisition may be paid on a reimbursement basis or issued directly to the closing attorney upon receipt of the draft HUD 1 Settlement Statement.

Should you have questions or need additional information, please contact Larry Jarvis, Assistant Community Development Director, at (919) 560-4570, ext. 273.

Sincerely,



Thomas J. Bonfield
City Manager